




*Newconex Holdings
Limited*

15th ANNUAL REPORT
1976



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NEWCONEX HOLDINGS LIMITED

Head Office: Ste. 4003 (P.O. Box 40), Toronto-Dominion Centre, Toronto, Canada M5K 1B7

Authorized Capital	- - - - -	4,000,000 shares, par value \$1.00
Issued	-- - - -	2,106,425 shares, par value \$1.00

DIRECTORS

M. E. Beckett	- - - - -	London, England
J. Ian Crookston	- - - - -	Toronto, Canada
J. Gerald Godsoe, C.B.E., Q.C., LL.D.	- - - - -	Toronto, Canada
Emory T. Grearson	- - - - -	Toronto, Canada
Dr. William F. James	- - - - -	Toronto, Canada
J. D. Leitch	- - - - -	Toronto, Canada
D. O. Lloyd-Jacob	- - - - -	New York, U.S.A.
Bryce R. P. MacKenzie, Q.C.	- - - - -	Toronto, Canada
Maj.-Gen. A. Bruce Matthews, C.B.E., D.S.O., E.D., C.D.	- - - - -	Toronto, Canada
G. J. Mortimer, M.B.E.	- - - - -	London, England
C. I. Rathgeb	- - - - -	Toronto, Canada
William A. Robinson, D.S.O.	- - - - -	Toronto, Canada

OFFICERS

J. Gerald Godsoe, C.B.E., Q.C., LL.D.	- - - - -	Chairman
William A. Robinson, D.S.O.	- - - - -	President
Emory T. Grearson	- - - - -	Vice-President and General Manager
E. Ray Ryan	- - - - -	Secretary-Treasurer and Controller

BANKERS

The Toronto-Dominion Bank

SOLICITORS

Fasken & Calvin	- - - - -	Toronto
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AUDITORS

Deloitte, Haskins & Sells	- - - - -	Toronto
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TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Vancouver

NEWCONEX HOLDINGS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

Net income for the year ended June 30, 1976 was \$527,809 or 25 cents per share, which compares with a net income before extraordinary items of \$960,727 or 46 cents per share for the previous fiscal year. In the year ended June 30, 1975 there was extraordinary income of \$1,403,004, arising principally from a gain on the sale of exploration properties, which produced a final net income of \$2,363,731 or \$1.12 per share. There were no extraordinary items of income during the year ended June 30, 1976.

Sales of industrial subsidiaries increased by \$6,859,507 to \$43,308,363 for the current year, mainly as a result of the higher volume of business done by Union Tractor Ltd., a distributor in Alberta and British Columbia of replacement parts for construction equipment.

Income from industrial operations before taxes and minority interest declined by \$108,427 to \$1,665,515 during the current year. This reduction resulted mainly from depressed economic conditions in British Columbia where reduced demand for industrial equipment adversely affected the operations of our subsidiary in that province. Economic conditions are expected to improve in British Columbia, and an increase in income to levels previously experienced by that subsidiary is anticipated.

Income from securities operations for the year ended June 30, 1976 was \$1,096,441, a reduction of \$394,879 from the corresponding income of the previous year. This decline was largely a consequence of the reduced level of our investment portfolio as a result of investments made in industrial subsidiaries during the year ended June 30, 1975 and the winding-down of our activities in trading securities.

The Company has undertaken a program of expanding the branch facilities of its industrial subsidiaries. During the year ended June 30, 1976 a major extension of the Edmonton branch of Union Tractor Ltd. was completed and a new branch was opened in Prince George, British Columbia. Plans are also underway to enlarge that company's branches in Grimshaw and Red Deer, Alberta. New branches are presently being constructed for Vancouver Equipment Co. in Kamloops, British Columbia, and for Industrial Sales Co. in Swift Current, Saskatchewan.

Under the provisions of the 1974 agreement, relating to the Company's purchase of a 57½% interest in Union Tractor Ltd., a further 10% interest has been acquired from a minority shareholder as of July 1, 1976 at a cost of approximately \$600,000.

In the year ended June 30, 1975 an appraised increase of \$973,638 in the values of the land and buildings in Vancouver, British Columbia, of Vancouver Equipment Co. was recorded in the consolidated accounts of the Company. Other appraisals made during the current year have indicated a substantial increase in the values of the properties of Union Tractor Ltd. It has been decided that such increases in property values should not be recorded in the consolidated accounts until actually realized, and, accordingly, the Vancouver appraisal increase has been eliminated as at June 30, 1976.

The dividend of 21 cents per share, which was paid in June 1976, was maintained at the same rate per share as in the previous year.

As previously reported, the Company has increased its program for mining exploration, and the write-off of such expenditures against income, amounting to \$548,623, was \$124,400 higher than in the previous year. As a result of certain organizational changes, the Company plans to take advantage of the recent federal budget proposals which provide that exploration expenditures incurred between May 25, 1976 and July, 1979 will be deductible from taxable income. It is anticipated that these proposals will be enacted into law at the next session of parliament.

During the year ended June 30, 1976 the Company carried out exploration in the Archean volcanic belts of northwestern Quebec and Ontario, and in the Cordillera of British Columbia, the Yukon Territory and Alaska. Including joint ventures with other companies and work done for our own account, some thirteen claim groups were staked and two properties were optioned. All of these properties have been or are in the process of being evaluated.

Drilling tests of a gold prospect in British Columbia and of two electromagnetic anomalies in Quebec were negative, but some encouragement came from work on a gold prospect in Ontario, in which the Company has a minority interest, and this work is continuing. Targets in British Columbia, the Yukon Territory and Alaska were evaluated during the field season, and consideration is being given to drilling three of these properties. Work on joint venture projects in Alaska, British Columbia and Quebec is expected to continue well into the fall.

The Directors wish to express their appreciation of the co-operation and loyal efforts of all members of the Company's staff.

On behalf of the Board of Directors,

September 29, 1976.

W. A. Robinson,
President.

CONSOLIDATED BALANC

(with 1975 figu

ASSETS

Current Assets:

	1976	1975
Cash and demand deposits	\$ 2,424,182	\$ 403,310
Dividends and interest receivable	28,959	38,940
Accounts and notes receivable	7,538,170	5,913,467
Trading securities (Note 2)	259,190	593,447
Inventories	13,257,199	11,505,337
Prepaid expenses	79,697	173,857
Income taxes recoverable	—	53,218
	<u>23,587,397</u>	<u>18,681,576</u>
Note Receivable (Note 3)	653,473	980,211
Investments in Marketable Securities — at cost (Note 2)	7,893,021	10,599,220
Property, Plant and Equipment (Note 4)	7,625,530	6,716,839
Less accumulated depreciation	1,898,227	1,610,868
	<u>5,727,303</u>	<u>5,105,971</u>
Mining Properties Under Investigation	598,314	573,621
Goodwill — excess of cost of shares of subsidiary over the book value thereof	179,722	239,629
	<u><u>\$38,639,230</u></u>	<u><u>\$36,180,228</u></u>

See accompanying n

INGS LIMITED

(Incorporated in Ontario)

STATEMENT AS AT JUNE 30, 1976

(For comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current Liabilities:		
Bank indebtedness (Note 5)	\$ 4,214,109	\$ 4,436,419
Accounts payable and accrued charges (Note 5)	8,405,743	6,697,590
Income taxes	625,418	655,997
Current portion of long-term debt	364,937	315,082
Due to parent company	780,564	—
	<u>14,390,771</u>	<u>12,105,088</u>
Long-Term Debt (Note 6)	1,968,288	2,209,039
Deferred Income Taxes	180,136	147,637
Minority Interest in Subsidiary Companies (Note 11)	<u>1,896,809</u>	<u>1,600,698</u>
Shareholders' Equity:		
Capital stock (Note 7):		
Authorized — 4,000,000 common shares of a par value of \$1 each		
Issued and fully paid — 2,106,425 shares	2,106,425	2,106,425
Contributed surplus	8,153,315	8,153,315
Retained earnings	9,943,486	9,858,026
	<u>20,203,226</u>	<u>20,117,766</u>
Approved by the Board:		
(signed) J. G. Godsoe, Director.		
(signed) W. A. Robinson, Director.		
	<u><u>\$38,639,230</u></u>	<u><u>\$36,180,228</u></u>

Financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended June 30, 1976
(with 1975 figures for comparison)

	1976	1975
Income from industrial operations:		
Sales	\$43,308,363	\$36,448,856
Cost of sales	31,624,313	26,436,700
Gross margin	11,684,050	10,012,156
Selling, administrative and general expenses	10,018,535	8,238,214
Income from industrial operations	1,665,515	1,773,942
Income from securities operations:		
Dividend and interest income	528,171	675,444
Realized capital gains on investments	575,268	547,207
Profit (loss) on trading securities	(6,998)	268,669
Income from securities operations	1,096,441	1,491,320
	2,761,956	3,265,262
Deduct:		
Corporate administrative and general expenses	608,206	529,942
Exploration expenditures written-off	548,623	424,223
	1,156,829	954,165
Income before provision for income taxes	1,605,127	2,311,097
Provision for income taxes	781,207	1,118,063
Income before minority interest and extraordinary items	823,920	1,193,034
Minority interest in earnings of subsidiaries	296,111	232,307
Net income before extraordinary items	527,809	960,727
Extraordinary items:		
Gain on sale of exploration properties	—	1,142,323
Income tax reductions from application of prior years' losses	—	190,181
Share of earnings of subsidiary	—	70,500
	—	1,403,004
Net income	\$ 527,809	\$ 2,363,731
Earnings per share:		
Net income before extraordinary items	\$ 0.25	\$ 0.46
Net income	\$ 0.25	\$ 1.12

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended June 30, 1976
(with 1975 figures for comparison)

	1976	1975
Retained earnings at beginning of the year	\$ 9,858,026	\$ 7,936,644
Net income	527,809	2,363,731
	10,385,835	10,300,375
Dividend	442,349	442,349
Retained earnings at end of the year	\$ 9,943,486	\$ 9,858,026

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended June 30, 1976

(with 1975 figures for comparison)

SOURCE OF FUNDS:	<u>1976</u>	<u>1975</u>
From operations:		
Income before minority interest and extraordinary items	\$ 823,920	\$1,193,034
Add items not involving funds:		
Depreciation	378,091	292,282
Goodwill written-off	59,907	59,907
Deferred income taxes	32,499	15,488
Income taxes eliminated by application of prior years' losses	—	190,181
Funds from operations	1,294,417	1,750,892
Cost of marketable securities sold	4,957,940	1,805,924
Payment on note receivable	326,738	—
Sale of exploration properties — less amounts due after one year	—	614,265
Increase in working capital of subsidiary company for the six months ended June 30, 1974	—	63,571
Total funds provided	<u>6,579,095</u>	<u>4,234,652</u>
APPLICATION OF FUNDS:		
Purchases of marketable securities	2,251,741	856,392
Property, plant and equipment	999,423	1,413,048
Dividend	442,349	442,349
Decrease (increase) in long-term debt	240,751	(529,318)
Increase in mining properties under investigation	24,693	33,175
Cost of acquisition of industrial subsidiaries, less working capital of \$2,091,185	—	93,826
Total funds applied	<u>3,958,957</u>	<u>2,309,472</u>
INCREASE IN WORKING CAPITAL	2,620,138	1,925,180
WORKING CAPITAL AT BEGINNING OF THE YEAR	6,576,488	4,651,308
WORKING CAPITAL AT END OF THE YEAR	<u>\$9,196,626</u>	<u>\$6,576,488</u>

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Valuation of securities — trading securities held at the fiscal year end are valued at the lower of average cost or market value. Appreciation in the market value of such securities is recorded in the accounts only to the extent that it represents a recovery in the market value of securities previously written-down. Investments in marketable securities are valued at average cost.

Investments in foreign securities have been shown in Canadian currency at the rates of exchange in effect at the time of purchase. The determination of the market values of such securities at the fiscal year end recognizes the then current exchange rates. Transactions in the consolidated statement of income have been translated at the rates of exchange prevailing at the dates of settlement.

- (b) Inventories — inventories are valued at the lower of cost or net realizable value.
- (c) Depreciation — property, plant and equipment are depreciated, generally, at the following rates:
- Buildings — 2½% - 5% straight-line basis
 - Equipment — 10% - 20% reducing-balance basis
 - Vehicles — 25% - 30% reducing-balance basis.
- (d) Mining properties under investigation — investigation expenditures are carried as assets until the investigation is abandoned at which point the accumulated expenditures are charged to income.
- (e) Goodwill — goodwill is being amortized on a straight-line basis over a five year period ending June 30, 1979.

2. MARKET VALUE OF SECURITIES

The market value as at June 30, 1976 of trading securities was \$259,570 (1975 — \$601,000) and of investments in marketable securities was \$7,883,564 (1975 — \$10,944,000).

3. NOTE RECEIVABLE

The note receivable is non-interest bearing and is due in equal annual instalments of \$326,738, the last of which is due in November 1978.

4. PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment, which are valued at cost, are as follows:

	1976	1975
Land	\$1,810,762	\$1,756,720
Buildings	2,881,863	2,341,228
Equipment	2,245,979	2,066,023
Vehicles	686,926	552,868
	<u>7,625,530</u>	<u>6,716,839</u>
Less accumulated depreciation	<u>1,898,227</u>	<u>1,610,868</u>
	<u>\$5,727,303</u>	<u>\$5,105,971</u>

Certain land and buildings of a subsidiary company, previously valued at their appraised value, have been retroactively restated to a cost basis. As a result, the appraisal surplus of \$973,638, which related principally to land, has been deleted from shareholders equity in the financial statements as of June 30, 1975.

5. CURRENT LIABILITIES

Included in bank indebtedness are bank loans totalling \$3,640,000 of which \$3,390,000 are secured. Accounts payable include amounts totalling \$5,187,377 owing on and secured by specific units of equipment inventory or amounts receivable with respect to units already sold.

6. LONG-TERM DEBT

Long-term debt, less the portion included in current liabilities, is comprised of the following:

	<u>Interest Rate</u>	<u>Due</u>	<u>Amount</u>	
Mortgages payable	6%	1989	\$1,139,323	
	11 $\frac{3}{4}$ %	1980	87,120	
	9 $\frac{1}{2}$ %	1984	32,637	\$1,259,080
Bank loans	11 $\frac{3}{4}$ %	1981	90,581	
	11 $\frac{1}{4}$ %	1980	283,338	373,919
Amounts due under finance contracts				181,880
Other				153,409
				<u>\$1,968,288</u>

The long-term debt of \$1,968,288 is payable as follows:

1978 — \$284,000; 1979 — \$369,880; 1980 — \$185,338; 1981 — \$106,000; after 1981 — \$1,023,070.

During the current year total interest expense was \$786,165 (1975 — \$613,771) which included interest on long-term debt of \$185,993 (1975 — \$133,338).

7. STOCK OPTION PLAN

Under the stock option plan for employees of the Company there were outstanding options as at June 30, 1976 on 28,000 common shares, exercisable at various dates at prices ranging from \$4.55 to \$6.75, the last of which expires in 1983. During the year no options were granted or exercised; options on 2,000 shares expired.

8. COMMITMENTS AND CONTINGENCIES

The future rental on leases in effect at June 30, 1976 was approximately as follows:

1977 — \$198,000; 1978 — \$173,000; 1979 — \$113,000; 1980 — \$98,000; 1981 — \$98,000; 1982-1986 — \$111,000.

Certain industrial subsidiaries are contingently liable as guarantors of customers' notes discounted totalling \$1,990,433 (1975 — \$1,285,000).

At June 30, 1976 capital expenditures authorized amounted to \$991,000 of which \$412,000 had been contracted for.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid to the Company's directors, officers and senior employees in the current year was \$170,342 (1975 — \$156,145).

10. INCOME TAXES

The Company and certain of its subsidiaries have available for application against their taxable income of future years operating losses of approximately \$402,000 and accumulated exploration expenditures of approximately \$4,948,000. While the operating losses expire, for tax purposes, during the years

1977 to 1981, the accumulated exploration expenditures are available indefinitely. Any income tax reductions resulting from utilization of these operating losses and accumulated exploration expenditures will be recorded at the time of realization.

11. SUBSEQUENT EVENT

Under the provisions of an agreement, dated May 9, 1974, relating to the purchase by the Company of a controlling interest in a subsidiary, the Company is committed to purchase, effective July 1, 1976, the interest of a minority shareholder at a cost of approximately \$600,000.

12. ANTI-INFLATION LEGISLATION

The Company is subject to the provisions of the Anti-Inflation Act and Regulations relating to the restraint of prices, profit margins, compensation and dividends. In the opinion of management, the Company has complied with the legislation in all material respects.

13. COMPARATIVE FIGURES

Certain of the 1975 figures for comparison have been reclassified to conform with the 1976 presentation.

AUDITORS' REPORT

To the Shareholders of
Newconex Holdings Limited:

We have examined the consolidated balance sheet of Newconex Holdings Limited as at June 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after revision of the financial statements for that year as explained in Note 4 to the financial statements.

Toronto, Ontario,
July 23, 1976.

Deloitte, Haskins & Sells,
Chartered Accountants.

NEWCONEX HOLDINGS LIMITED

AND SUBSIDIARY COMPANIES

The Portfolios at June 30, 1976 included the following securities:

MARKETABLE SECURITIES

Canadian

10,000	Alcan Aluminium Limited
2,000	Asbestos Corporation Limited
25,000	BM-RT Realty Investments
10,000	Conwest Exploration Company Limited
15,000	Dominion Foundries and Steel Limited "Class A"
15,000	Hollinger Mines Limited "Class A"
17,500	The International Nickel Co. of Canada Limited "Class A"
30,000	Pine Point Mines Limited
30,000	TransCanada PipeLines Limited

United States

9,000	Atlantic Richfield Company
7,000	Bethlehem Steel Corporation
15,000	Boise Cascade Corporation
12,000	Burlington Northern Incorporated
4,500	Exxon Corporation
17,000	Newmont Mining Corporation
12,000	Phelps Dodge Corporation
12,000	Pullman Incorporated
4,000	Quaker Oats Company
12,000	Weyerhaeuser Company

South African and Other

17,000	Blyvooruitzicht Gold Mining Co. Limited
5,000	Queensland Mines Limited
10,000	Vaal Reefs Exploration and Mining Co. Limited

NEWCONEX HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended December 31, 1976
(Unaudited and \$000's omitted)

	1976	1975
Source of Funds:		
Net income (loss)	\$ 88	\$ (475)
Add: Items not involving funds—		
Exploration expenditures written off	275	324
Depreciation	184	157
Minority interest	76	96
Goodwill written off	30	30
Funds from operations	653	132
Cost of marketable securities sold	580	1,941
Current portion of proceeds on sale of exploration properties	327	327
	<u>1,560</u>	<u>2,400</u>
Application of Funds:		
Purchases of marketable securities	565	1,036
Property, plant and equipment	1,178	584
Increase in investment in subsidiary	600	
Deferred exploration expenditures	302	259
Decrease in long-term liabilities	38	192
	<u>2,683</u>	<u>2,071</u>
(Decrease) increase in working capital	<u>\$ (1,123)</u>	<u>\$ 329</u>

Printed in Canada.

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Newconex Holdings Limited

Interim Report

to the Shareholders

for the six months ended Dec. 31, 1976

POSTAL ADDRESS
P. O. Box 40, TORONTO-DOMINION CENTRE
TORONTO, ONTARIO
M5K 1B7

NEWCONEX HOLDINGS LIMITED

To the Shareholders:

Net income for the six months ended December 31, 1976 was \$88,000, which compares with a loss of \$475,000 for the corresponding period of the previous fiscal year.

Sales of industrial companies, which are involved in the distribution of heavy equipment and parts in Western Canada and the servicing of such equipment, increased by \$1,875,000 to \$21,476,000 during the current period. However, income from such operations, before taxes and minority interest, declined by \$116,000 to \$447,000, due mainly to the reduced level of activity experienced by our company in Saskatchewan.

Income from investments and trading securities increased by \$428,000 to \$462,000 during the current period as a result of the substantially higher gain realized on the sale of marketable securities.

Under the provisions of a 1974 agreement relating to the Company's purchase of a 57½% interest in Union Tractor Ltd., which operates mainly in Alberta, a further 10% interest was acquired from a minority shareholder as of July 1, 1976 at a cost of approximately \$600,000.

New branch facilities have been completed for Vancouver Equipment Company in Kamloops, British Columbia, and for Industrial Sales Company in Swift Current, Saskatchewan.

Exploration during the past six months has centred in Alaska, British Columbia and Quebec. An interesting uranium area in Alaska was examined as part of a joint venture program, and several porphyry copper and massive sulphide environments were investigated in British Columbia. In Quebec, one property was drilled, with negative results, and eight claim groups were acquired as part of a joint venture.

Further work is planned on the uranium project in Alaska. In British Columbia and Quebec geophysical surveys will be used to delineate potential massive sulphide targets. In addition to drilling any targets which may be outlined by this work, firm plans have been made to drill a large porphyry copper-molybdenum indication near Carmacks in the Yukon and two porphyry targets in central British Columbia.

Toronto, Canada
February 9, 1977.

W. A. ROBINSON,
President.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the six months ended December 31, 1976
(Unaudited and \$000's omitted)

	1976	1975
Sales of industrial companies ..	\$ 21,476	\$ 19,601
Income from industrial operations before taxes and minority interest	447	563
Dividend and interest income ..	207	266
Realized gain (loss) on securities sold	261	(222)
Adjustment on valuation of trading securities	(6)	(10)
	909	597
Administrative and general expenses	267	265
Exploration expenditures written off	275	324
	542	589
Income before income taxes ..	367	8
Provision for income taxes	203	387
	164	(379)
Minority interest	76	96
Net income (loss)	\$ 88	\$ (475)
Net income (loss) per share ..	4¢	(23¢)